

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Commonwealth Edison Company	:	Docket No. 08-0532
	:	
Investigation of Rate Design Pursuant	:	
to Section 9-250 of the Public Utilities Act	:	

Rebuttal Testimony of

**MICHAEL J. MEEHAN**

Interim Vice President, Customer Financial Operations  
Commonwealth Edison Company

June 19, 2009

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1     **I.       INTRODUCTION**

2     **Q.       What is your name and business address?**

3     A.       Michael J. Meehan, Commonwealth Edison Company (“ComEd”), 1919 Swift Drive,  
4               Oak Brook, Illinois 60523-1502.

5     **Q.       Are you the same Michael J. Meehan who submitted direct testimony on behalf of**  
6               **ComEd in this Docket?**

7     A.       Yes.

8             **A.       PURPOSE OF TESTIMONY**

9     **Q.       What is the purpose of your rebuttal testimony?**

10    A.       The purpose of my rebuttal testimony is to respond to the direct testimony of Illinois  
11               Commerce Commission (the “Commission” or “ICC”) Staff (“Staff”) witness Mr. Peter  
12               Lazare; Coalition to Request Equitable Allocation of Costs Together (“REACT”) witness  
13               Mr. Jeffrey Merola; and City of Chicago witness (“City”) Mr. Edward C. Bodmer.

14            **B.       SUMMARY OF CONCLUSIONS**

15    **Q.       In summary, what are your conclusions?**

16    A.       I conclude the following:

17            •       Contrary to the assertions of Mr. Merola and Mr. Bodmer, ComEd followed the  
18                       Commission’s Initiating Order in this proceeding, as expressly recognized by  
19                       Mr. Lazare. More specifically, ComEd undertook a study of customer services  
20                       costs to analyze the costs ComEd incurs in providing customer services and  
21                       determine if these costs are sensitive to customers switching to a Retail Electric  
22                       Supplier (“RES”) from ComEd.

23            •       Each of the issues raised or adjustments made by Mr. Merola as to the customer  
24                       services costs ComEd analyzed are improper or unsupported in fact. For

example, he applies a 50% “functionalization factor” that is baseless and arbitrary because there is no evidence that suggests that so-called “unassigned” costs have a 50% delivery component and a 50% supply component.

- Mr. Merola’s determination of the purported “average costs” of providing customer services to a customer taking supply from a RES (“RES supplied customer”) versus providing customer services to a customer taking supply from ComEd (“ComEd supplied customer”) demonstrates the problem with assigning costs that belong to the distribution function to the supply function. Under Mr. Merola’s determination, the average cost of providing customer services to a customer taking supply service from ComEd would increase dramatically with the level of switching because the costs assigned to the supply function are fixed and spread among smaller amounts of kWhs supplied by ComEd.

- Mr. Merola’s analysis completely ignores that ComEd’s customer services costs will increase at switching levels of 10% or 100% as ComEd incurs the costs of providing services to support the marketplace.

- Although Mr. Bodmer claims that ComEd somehow uses “misleading” account titles, ComEd’s use of the account titles at issue is directed by law.

- Mr. Bodmer fails to demonstrate how ComEd’s analysis regarding usage contribution to costs is flawed in such a way that the Commission cannot rely upon it. In fact, Mr. Bodmer’s rhetoric flies in the face of Mr. Lazare’s testimony that ComEd’s analysis is reasonable and that the Commission should reach the same conclusion as it has done on numerous occasions in past rate cases.

#### **C. ATTACHMENTS TO TESTIMONY**

**Q. What are the exhibit(s) attached to your rebuttal testimony?**

A. The following is a list of the exhibits attached to my rebuttal testimony and a brief description of each:

1. ComEd Ex. 5.1 presents ComEd’s Response to REACT 2.09.
2. ComEd Ex. 5.2 presents ComEd’s Response to REACT 2.10 CORRECTED.

**II. ANALYSIS REGARDING CUSTOMER SERVICES COSTS**

**Q. Which Staff and Intervenor witnesses address ComEd’s analysis of the costs for providing customer services to a customer supplied by a RES versus a ComEd supplied customer?**

A. Mr. Lazare on behalf of Staff (Staff Ex. 1.0) and Mr. Merola on behalf of REACT (REACT Ex. 2.0).

**Q. Do you address every point made by these witnesses with respect to ComEd’s analysis?**

A. No. Accordingly, to the extent my rebuttal testimony does not address a point made by these witnesses, it should not be understood that ComEd is in agreement with that particular point raised by the witness.

**A. STAFF’S CONCLUSIONS**

**Q. What are Mr. Lazare’s conclusions with respect to ComEd’s analysis of customer services costs?**

A. Mr. Lazare concludes that only if more significant numbers of customers “migrated to alternative supply” would the impact run into millions of dollars. (Staff Ex. 1.0, 30:704-31:711). Accordingly, Mr. Lazare concludes that “this does not appear to be a significant cost issue for ComEd ratepayers.” (*Id.*, 31:710-11).

**B. RESPONSE TO REACT**

**Q. Does Mr. Merola challenge ComEd's analysis of customer services costs?**

A. Yes. Mr. Merola claims that ComEd did not comply with the Commission's directive. (REACT Ex. 2.0, 10:206-11:216). Mr. Merola also argues that ComEd's analysis is problematic because the pool of costs considered was too small. (*Id.*, 14:283-91).

**Q. Does Mr. Lazare take issue with ComEd's analysis?**

A. No. In fact, Mr. Lazare expressly recognizes that ComEd addressed the issue set forth in the Initiating Order. When asked how ComEd examined the issue, Mr. Lazare testified as follows:

ComEd witness Meehan states that the Company reviewed the various components of its O&M costs pertaining to customer service that were in excess of \$100,000. The Company then sought to determine the magnitude of those costs under three scenarios in which 1%, 10% and 100% of customers choose alternative suppliers. The degree to which the cost varies under the different scenarios is ComEd's measure of the relative cost of providing customer care to these two different customer groups.

(Staff Ex. 1.0, 28:647-58).

**Q. How did ComEd follow the Commission's directive in the Initiating Order regarding customer services costs?**

A. In the Initiating Order in this proceeding, the Commission directed ComEd to analyze costs for providing customer services to a RES supplied customer versus providing customer services to a ComEd supplied customer. Initiating Order at 2.

ComEd undertook a study of customer services costs to analyze the costs ComEd incurs in providing customer services and determine if these costs are sensitive to customers

switching to a RES from ComEd. (ComEd Ex. 2.0, 4:83-86). Thus, ComEd's study complies with the Initiating Order's directive that ComEd analyze how customer services costs may change depending on the number of customers switching to RESs.

**Q. Are Mr. Merola's claims in this docket the same as those he raised in ComEd's most recent rate case? (Docket No. 07-0566, "2007 Rate Case").**

A. No. While Mr. Merola's testimony in both proceedings attacks ComEd's cost allocation between the supply and delivery functions, his supporting rationale is different.

In the 2007 Rate Case, Mr. Merola argued that "ComEd's supply procurement costs should be bypassable for those customers who do not take supply service from ComEd, and thus, should not be embedded in the delivery services rates." (Docket No. 07-0566, REACT Ex. 3.0, 6:117-19). When asked to explain his use of the term "bypassable," which was used over 20 times in his rebuttal testimony (Docket No. 07-0566, REACT Ex. 7.0), Mr. Merola explained that he meant that "ComEd's cost recovery structure should be designed to ensure that customers who do not acquire their energy supply from ComEd do not have to pay ComEd for any of ComEd's supply-related costs." (*Id.*, 7:121-23). Using this rationale, Mr. Merola argued that "the appropriate inquiry for the Commission in [the rate case] proceeding is what level of Customer Care Costs should be allocated to supply procurement." (Docket No. 07-0566, REACT Ex. 7.0, 17:370-72). Mr. Merola then concluded that nearly \$65 million of ComEd's customer services costs should be allocated to the supply function. (*Id.*, 20:449-21:453). Put another way, Mr. Merola sought to remove nearly \$65 million from ComEd's distribution service-related revenue requirement.

118 In this proceeding, Mr. Merola points to various “adjustments” and a “functionalization  
119 factor” to support his conclusion that nearly \$90 million in customer services costs  
120 should be allocated to the supply function. (REACT Ex. 2.0, 16:336-125:528, REACT  
121 Ex. 2.5) (In this instance, Mr. Merola seeks to remove almost \$90 million from ComEd’s  
122 distribution service-related revenue requirement). Mr. Merola makes no mention of his  
123 term “bypassable” in his direct testimony, even though the Commission appears to have  
124 endorsed that rationale in ordering ComEd to analyze “the cost of providing Customer  
125 Care to a customer taking supply from an alternative supplier versus the cost of providing  
126 Customer Care to a customer taking supply from ComEd.” Initiating Order at 2. As  
127 discussed above, ComEd’s analysis in this proceeding complies with the Initiating Order  
128 and, therefore, addresses Mr. Merola’s “bypassable” rationale.

129 **Q. Does ComEd agree that its customer services costs are properly “bypassable”?**

130 A Yes. As a general matter, ComEd agrees that its supply procurement costs should be  
131 “bypassable” for customers taking supply service from a RES as those costs should be  
132 perceived to be borne solely by the RESs. If ComEd were to keep any portion of the  
133 costs, they would not have been “bypassed” under Mr. Merola’s use of the term.

134 **Q. For purposes of this proceeding, what costs were reviewed as part of ComEd’s**  
135 **study?**

136 A. As I noted in my direct testimony, ComEd identified the costs to be reviewed in its study  
137 as the 2006 direct operating and maintenance (“O&M”) costs that were analyzed during  
138 the 2007 Rate Case. (ComEd Ex. 2.0, 4:87-5:95). ComEd excluded capital investment  
139 costs related to customer services. (*Id.*) ComEd then identified for further review all of



the direct O&M costs that could be related to providing customer services, which totaled \$138,582,450. (*Id.*, 5:97-99).

Accordingly, my direct testimony only addressed ComEd's analysis of its customer services costs and not any other category of costs.

**Q. Were there any customer services costs excluded from ComEd's study?**

A. Yes. Although ComEd appropriately identified some costs as within the scope of the initial analysis, certain of its customer services costs were excluded from ComEd's detailed analysis because they undisputedly relate to ComEd's distribution service. (ComEd Ex. 2.0, 5:107-10). In particular, ComEd excluded costs incurred by Metering Services (\$34,018,844), Large Customer Services (\$7,384,136), Demand Management (\$4,301,914) and Advertising (\$612,800). (*Id.*, 5:110-12).

Additionally, ComEd did not pursue investigating the significant implementation costs that would be necessary to enhance existing systems and processes to handle switching volumes as they approach 100%.

**Q. Does Mr. Merola take issue with the costs ComEd excluded from its study?**

A. Yes. Mr. Merola claims that it was an "error for ComEd to identify all costs associated with the Large Customer Services Department as being associated only with the delivery function." (REACT Ex. 2.0, 13:271-14:281). To correct this purported error, he makes a simplistic and unsupported adjustment to directly assign two-thirds of the costs of this department to the distribution function and one-third of the costs to "Unassigned Customer Care Costs," 50% of which end up in the supply function. (*Id.*, 19:389-403).

161 **Q. Does Mr. Merola take issue with any other category of costs excluded from**  
162 **ComEd's study?**

163 A. No.

164 **Q. What functions does ComEd's Large Customer Services department perform?**

165 A. The Large Customer Services department provides account management services for  
166 large customers, which are those customers at greater than 400 kW. (ComEd Ex. 2.0,  
167 7:154-56).

168 **Q. Why did ComEd exclude the costs of Large Customer Services from its study?**

169 A. As I stated in my direct testimony, the provision of electric power and energy supply to  
170 customers served by the Large Customer Services department has been declared  
171 competitive by operation of law, *see* 220 ILCS 5/16-113(f). (ComEd Ex. 2.0, 7:153-  
172 8:170). Therefore, these customers receive their supply services either from a RES or at  
173 the default hourly supply rate in accordance with Rate BESH – Basic Electric Service  
174 Hourly Pricing (with minor exceptions for Condominium Common Area accounts). (*Id.*)  
175 The customers served by this department do not cause ComEd to incur supply-related  
176 customer services costs, so there was no need to examine whether additional switching of  
177 large customers would result in a change in the services provided by ComEd's Large  
178 Customer Services department. (*Id.*)

179 **Q. Are there any anti-competitive implications from ComEd assigning all of its**  
180 **customer services costs from the Large Customer Services department to the**  
181 **distribution function?**

182 A. No. As demonstrated in ComEd's most recent monthly switching report provided to the  
183 Commission, as of May 31, 2009, approximately 89% of the customers served by the  
184 Large Customer Services department already take service from a RES. Accordingly, the  
185 assignment of costs incurred by this department to the delivery function has not impeded  
186 ComEd's larger customers from switching to a RES. In addition, this high switching rate  
187 further supports the conclusion that customer services costs from the Large Customer  
188 Services department are not incurred as part of the supply function.

189 **Q. What is the impact of Mr. Merola's "adjustment" for the costs of the Large**  
190 **Customer Services department?**

191 A. By moving any portion of the costs of the Large Customer Services department from the  
192 distribution function, where 99% of these costs are allocated to customers over 400 kW  
193 (Docket No. 07-0566, ComEd Ex. 12.20, page 4), to the supply function, where  
194 residential and small nonresidential customers are taking supply services from ComEd,  
195 Mr. Merola's adjustment shifts the responsibility of the costs caused by large customers  
196 to be recovered from residential and small nonresidential customers.

197 **Q. What does Mr. Merola's "adjustment" for the costs of the Large Customer Services**  
198 **department demonstrate?**

199 A. Mr. Merola's unsupported assignment of some of the costs of this department to the  
200 supply function echoes the faulty reasoning that appears elsewhere in his testimony that  
201 costs can simply be assigned to the supply function on an unsupported basis, such as the  
202 "functionalization factor" he employs to split certain costs evenly between the supply  
203 function and the distribution function. (REACT Ex. 2.0, 17:352-57, 19:389-403, 23:491-

24:511). In fact, moving costs from the distribution to the supply function does not alter the amount of costs incurred by ComEd. Rather, Mr. Merola's position of defaulting certain costs to the supply function will result in residential and small non-residential customers bearing the costs of the larger customers who can avoid the costs altogether by switching to a RES.

**Q. Does Mr. Merola identify any other "errors" in ComEd's analysis?**

A. Yes. Mr. Merola claims that there are "two errors in ComEd's analysis of how call center activity will be impacted by increased levels of switching": (1) a purported underestimation of how much call volume will be reduced due to switching; and (2) a purported data entry error in determining the financial impact of the reduction in call volume. (REACT Ex. 2.0, 15:301-16:322).

**Q. Did Mr. Merola identify actual errors in ComEd's analysis?**

A. No. Underlying both of these purported errors is Mr. Merola's assumption that there is "a 10% reduction in call volume with 10% switching." (REACT Ex. 2.0, 15:310-14). Mr. Merola's assumption appears to stem from a misreading of the data supporting ComEd's analysis, which may have been exacerbated by ComEd's original response to REACT 2.10, which was not correct. (See ComEd Ex. 5.2, Response to REACT 2.10 CORRECTED).

ComEd's analysis, which was originally provided to all parties in a workpaper relating to my direct testimony and subsequently provided in response to REACT 2.09, showed a 10% reduction in call volume with 100% switching. (See ComEd Ex. 5.1, attach. 1, "Call Data," rows 30-31). My direct testimony contains the dollar amounts for reduction in

labor costs—\$46,850 and \$468,502—that correspond to the reduction in call volume resulting from rates of 10% and 100% switching. (ComEd Ex. 2.0, 16:333-36).

**Q. Does Mr. Merola purport to provide an alternate allocation of ComEd’s customer services costs?**

A. Yes. Mr. Merola claims to perform “an appropriate cost allocation” of ComEd’s customer services costs, which purportedly results in \$195,366,865 allocated to the distribution function and \$89,699,789 allocated to the supply function. (REACT Ex. 2.0, 16:336-17:357, 25:520-28).

According to Mr. Merola’s analysis, the \$89,699,789 allocated to the supply function is primarily comprised of three components:

1. \$112,483 of costs associated with the Electric Supplier Services Department (“ESSD”);
2. \$8,301,956 of costs associated with the Customer Contact Center; and
3. \$81,285,350, which purportedly represents 50% of all customer services costs that “are not directly assigned to either the delivery or supply function.”

(*Id.*, 21:431-34, 25:513-18; *see also* REACT Ex. 2.5).

**Q. Did Mr. Merola properly include costs associated with ESSD in his analysis?**

A. No. Mr. Merola incorporates into his allocation analysis \$112,483 in costs associated with ESSD. (REACT Ex. 2.0, 18:368-72, 21:432-33). However, my direct testimony is clear that ComEd already allocated these costs to the supply function and, therefore, they were “not analyzed as part of the study.” (ComEd Ex. 2.0, 17:350-52). Mr. Merola’s analysis would cause the removal of twice the amount of the costs.

248 **Q. Did Mr. Merola properly assign \$8,301,956, or 37%, of the customer services costs**  
249 **for the Customer Contact Center to the supply function?**

250 A. No. Mr. Merola claims that ComEd “implicitly” identifies a portion of the Customer  
251 Contact Center costs “as being associated solely with the supply function, since it  
252 assumes a one-to-one relationship between call volume and customer switching.”  
253 (REACT Ex. 2.0, 20:426-21:428). Mr. Merola then relies on this assumption about the  
254 reduction ratio in assigning 37% of the Customer Contact Center costs to the supply  
255 function as shown in REACT Ex. 2.4. (*Id.*, 21:436-43).

256 Mr. Merola obtained the “one-to-one relationship” from ComEd’s original response to  
257 REACT 2.10, which unfortunately was not correct. ComEd has subsequently provided a  
258 corrected response to REACT 2.10, which supports the conclusion in my direct testimony  
259 and workpapers that certain transactions would be reduced by 10% at a 100% switching  
260 level. (ComEd Ex. 2.0, 16:333-35; ComEd Ex. 5.2, ComEd’s Response to REACT 2.10  
261 CORRECTED).

262 **Q. Did Mr. Merola properly include \$81,285,350, or 50%, of all customer services costs**  
263 **that “are not directly assigned to either the delivery or supply function” to the**  
264 **supply function?**

265 A. No. In the first instance, Mr. Merola improperly started with the costs associated with the  
266 full revenue requirement, rather than properly limiting the analysis to the O&M costs as  
267 ComEd did. (REACT Ex. 2.0, 17:359-66). Thus, Mr. Merola improperly included  
268 approximately \$138 million, of which \$53 million in costs relate to Administrative &  
269 General Expenses and approximately \$84 million in costs relate to Pro Forma

Adjustments. (ComEd Ex. 3.1, Sch. 1a, page 12, line 156 and page 15, lines 204 and 212).

These costs are not properly part of the analysis ordered by the Commission in this proceeding because the Commission already directed ComEd to allocate these costs to the distribution function in the 2007 proceeding involving ComEd's proposed procurement plan and related supply tariffs, *Commonwealth Edison Co.*, Docket Nos. 07-0528/07-0531 (Cons.). (See also ComEd Ex. 1.0, 26:545-29:603). ComEd followed this directive in the 2007 Rate Case, classifying the majority of customer services costs as distribution-related. (ComEd Ex. 1.0, 28:592-95). Mr. Lazare continues to support the rate design adopted by the Commission in the 2007 Rate Case, which includes the classification described above, because the Commission "has not expressed an interest in changing ComEd's rate design" and it is "reasonable to assume that the Commission remains satisfied with the rate design approach it adopted" in the 2007 Rate Case. (Staff Ex. 1.0, 41:954-42:961).

The remaining balance of the \$162 million of so-called unassigned customer services costs and the \$138 million described above is mainly the direct O&M costs included in the analysis provided in my direct testimony. My analysis shows that ComEd would experience no savings in these costs even if no customers took supply service from ComEd because ComEd will still have the same responsibilities, and bear the related costs, in providing delivery service to customers. Accordingly, none of these costs should be assigned to the supply function.

**Q. Does Mr. Merola support his 50% allocation to the delivery and supply functions for all customer services costs that “cannot be directly assigned to the delivery function or the supply function” with any evidence? (REACT Ex. 2.0, 17:354-56).**

A. No. Mr. Merola does not base this allocation on any data within ComEd’s direct testimony, any discovery response, or any prior ComEd docket. He characterizes his 50% functionalization factor as “a conservative methodology” (*Id.*, 17:353-57) and “a very reasonable estimate” (*id.*, 24:509-10), but it is not supported by any analysis. I would characterize his 50% functionalization factor as baseless and arbitrary. There is nothing within ComEd’s analysis set forth in my direct testimony that suggests that the so-called “unassigned” costs have a 50% delivery component and a 50% supply component. If that were the case, then the analysis that I presented in my direct testimony would have led to a much higher reduction of customer services costs at 100% switching.

**Q. Does Mr. Merola agree with the conclusion of your analysis that there would be no cost savings even if ComEd provides no supply services to customers?**

A. It appears that Mr. Merola agrees with that conclusion in describing the \$162 million of remaining customer services costs as “fixed” costs. (REACT Ex. 2.0, 22:453-59).

**Q. Mr. Merola’s testimony includes two comparison points regarding the average cost of providing customer services: (1) the average cost of providing such services to a residential customer taking supply service from a RES is 0.5500 cents per kWh and the average cost of providing such services to a residential customer taking supply service from ComEd is 0.8043 cents per kWh; and (2) the average cost of providing**



313 **such services to a non-residential customer taking supply service from a RES is**  
314 **0.0599 cents per kWh and the average cost of providing such services to a non-**  
315 **residential customer taking supply service from ComEd is 0.1602 cents per kWh.**  
316 **(REACT Ex. 2.0, 28:580-29:604). Do you understand his analysis with respect to**  
317 **these two comparisons?**

318 A. Yes. These average costs are determined based on Mr. Merola's flawed analysis of the  
319 customer services costs, his assignment to the distribution and supply functions, and the  
320 current switching statistics. (REACT Ex. 2.0, 26:530-29:604; REACT Exs. 2.6 and 2.7).

321 **Q. Do you agree with Mr. Merola's conclusion that these are the average costs of**  
322 **providing customer services to RES supplied versus ComEd supplied customers?**

323 A. No. Mr. Merola's determination of these "average costs" cannot be considered as the  
324 average costs of providing customer services to RES supplied versus ComEd supplied  
325 customers as directed by the Initiating Order. Mr. Merola's determination provides a  
326 clear picture of the problem with assigning costs that belong to the distribution function  
327 to the supply function. Under Mr. Merola's determination, the average cost of providing  
328 customer services to a customer taking supply service from ComEd would increase  
329 dramatically with the level of switching because the costs assigned to the supply function  
330 are fixed and spread among smaller amounts of kWhs supplied by ComEd. For example,  
331 using Mr. Merola's calculations, with 50% switching, the average cost for a ComEd  
332 supplied residential customer would be increased to 1.0585 cents per kWh, with 70%  
333 switching to 1.3975 cents per kWh, with 90% switching to 3.0924 cents per kWh, and  
334 with 99.99% switching to 2,542.9567 cents, or \$25.43, per kWh. Following  
335 Mr. Merola's analysis, one would conclude that the remaining customers supplied by

ComEd caused all the costs assigned to the supply function by Mr. Merola when, in fact, this is the result of inappropriately assigning costs from the distribution function to the supply function.

**Q. What is the practical effect of Mr. Merola's allocation?**

A. If Mr. Merola's allocation analysis were adopted by the Commission, it would reduce ComEd's distribution revenue requirement by approximately \$90,000,000 by removing purported supply-related customer services costs.

**Q. Does Mr. Merola make any mention of your testimony that certain of ComEd's customer services costs may increase?**

A. No. Mr. Merola's analysis completely ignores my direct testimony that ComEd's customer services costs will increase at switching levels of 10% or 100% as ComEd incurs the costs of providing services to support the marketplace. (ComEd Ex. 2.0, 17:362-64; ComEd Ex. 2.1). For example, at 10% switching, ComEd's Electric Supplier Services Department estimates that its costs would increase by \$102,855 due to the increased labor required to manage enrollments, data request, and account management work necessary to support the marketplace. (*Id.*, 17:364-67). ComEd would also incur increased costs relating to Information Technology to pay an external vendor to handle the additional processing of electronic data interchange transactions required by 100% switching, which would include ongoing costs of \$2,170,000 per year, as well as one-time startup costs. (*Id.*, 20:423-21:436). Mr. Merola also fails to recognize that considerable expenses would be necessary for ComEd to be able to handle switching at increasing volumes.

Mr. Merola's failure to give credence to the possibility that ComEd's costs may increase ignores not only my direct testimony, but also the Illinois legislature's recognition that ComEd's costs may increase as it is required to provide additional services to RESs. Specifically, Public Act 95-0700 requires utilities to provide consolidated billing on behalf of RESs and purchase their receivables and these requirements only serve to further confuse the allocation of costs between supply and distribution.

**III. ANALYSIS REGARDING USAGE CONTRIBUTION TO COSTS**

**Q. Which Staff and Intervenor witnesses addresses ComEd's analysis of the extent to which usage contributes to customer billing costs, data management costs, installation costs, service drops, and customer information costs and whether factors other than the number of customers in a class should be taken into account in the assignment of these costs to rate classes?**

A. Mr. Lazare on behalf of Staff (Staff Ex. 1.0) and Mr. Bodmer on behalf of the City of Chicago (City Ex. 1.0).

**Q. Do you address every point made by these witnesses with respect to ComEd's analysis?**

A. No. Accordingly, to the extent my rebuttal testimony does not address a point made by these witnesses, it should not be understood that ComEd is in agreement with that particular point raised by the witness.

**Q. Have you reviewed the allocation of the billing and data management costs, customer installations costs, service costs, and customer information costs in the embedded cost of service study ("ECOSS") submitted in this proceeding?**

380 A. Yes. I reviewed the allocation of these costs in the direct testimony and the rebuttal  
381 testimony of ComEd witness Alan C. Heintz submitted in this proceeding, as well as the  
382 exhibits thereto, which include the ECOSS provided in response to the Commission's  
383 Initiating Order and the revised ECOSS attached to Mr. Heintz' rebuttal testimony.  
384 (ComEd Exs. 3.0-3.4 and 7.0-7.4).

385 **Q. Do you agree with the manner in which these costs were allocated to customer**  
386 **classes in the revised ECOSS?**

387 A. Yes. These costs are allocated by allocation factors prepared based on the number of  
388 customers in the delivery customer classes and the average per unit costs by delivery  
389 class, *i.e.*, the weighting factors described in ComEd Ex. 12.0 filed in the 2007 Rate Case.  
390 In addition, I reviewed the revised weighting factors for services shown in ComEd  
391 Ex. 6.13. I agree with using the number of customers as the basis for allocation of these  
392 costs because ComEd's experience has been that the number of customers determines the  
393 level of these costs.

394 **Q. In your direct testimony, you stated that certain costs were direct-assigned to**  
395 **customer classes as reflected in the ECOSS filed in the 2007 Rate Case. (ComEd**  
396 **Ex. 2.0, 25:525-29, 28:592-96, 28:603-29:606). What did you mean by the phrase**  
397 **"direct-assigned"?**

398 A. The reference to "direct-assigned" in my direct testimony is a description of the  
399 development of weighting factors for purposes of the allocation of costs in ComEd's  
400 ECOSS.

**A. STAFF'S CONCLUSIONS**

**Q. What is Mr. Lazare's conclusion with respect to ComEd's analysis of usage and customer costs?**

A. Mr. Lazare concludes that ComEd's analysis is "generally reasonable," with ComEd providing "a reasonable explanation of why customers, rather than usage or some other factor, provides the best allocation approach." (Staff Ex. 1.0, 32:745-48). Mr. Lazare also emphasizes that ComEd's analysis of these costs is further supported by the fact that "the allocations of these costs on a customer basis have been presented and reviewed in previous rate cases and found to be reasonable from a cost standpoint." (*Id.*, 33:750-53).

**B. RESPONSE TO THE CITY**

**Q. Does Mr. Bodmer have any overarching complaints about ComEd's analysis regarding usage contribution to certain categories of costs?**

A. Yes. Mr. Bodmer claims that there is a "theme" to ComEd's analysis of customer cost items in that ComEd uses "misleading" account titles. (City Ex. 1.0, 4:80-85, 7:140-52, 61:1319-26). The specific account titles Mr. Bodmer points to are "customer installations," "billing and data management," and "customer information." (*Id.*)

The account titles and associated costs presented by ComEd are primarily based on amounts reported in the 2006 FERC Form No. 1 Annual Report (FERC Form 1) and the ILCC Form No. 21 Annual Report (ICC Form 21). The FERC Form 1 and the ICC Form 21 are consistent with the requirements of the FERC's Uniform System of Account ("USOA") (Code of Federal Regulations 18, Pt. 101) and the ICC's USOA (Title 83, Part 415), respectively. Thus, ComEd's use of the account titles at issue is directed by law.

423 **Q. Will you please give an example of how ComEd has properly recorded costs in the**  
424 **accounts challenged by Mr. Bodmer?**

425 A. Yes. Mr. Bodmer asserts that ComEd's account title "billing and data management"  
426 includes lobbying and software costs and that the majority of the costs in this account are  
427 not related to processing and sending of rate payer bills or to metering. (City Ex. 1.0,  
428 4:80-85, 7:140-52).

429 ComEd's "billing and data management" costs primarily consist of amounts recorded in  
430 customer related Accounts 901 (Supervision), 902 (Meter Reading Expenses), 903  
431 (Customer Records and Collection Expenses), and 597 (Maintenance of Meters). I  
432 assume the lobbying costs Mr. Bodmer refers to in his direct testimony are the credit  
433 amounts recorded to Account 901 of \$121, Account 902 of \$1,392 and Account 903 of  
434 \$39,348. These credit amounts represent the reclassification of lobbying related costs  
435 from Accounts 901, 902, and 903 to Account 426.4 (Expenditures for Certain Civic,  
436 Political and Related Activities). The result is that there are no lobbying costs in the  
437 account titled "billing and data management" in 2006.

438 Based upon discussions with ComEd's accounting department, I understand that the  
439 USOA instructions for Accounts 901, 902, 903, and 597 provide that these accounts shall  
440 include the cost of labor, materials used, and expenses incurred to accomplish the  
441 numerous activities listed in the instructions for these accounts. Certain Information  
442 Technology-related costs are necessary expenses incurred to accomplish the numerous  
443 activities listed in the USOA instructions for these accounts.

I further understand that the USOA instructions for Accounts 901, 902, 903, and 597 provide for the recording of costs for numerous customer-related activities and are not strictly limited to the “processing and sending of rate payer bills, or to metering.”

Similarly, I understand that ComEd properly records costs in the other two accounts challenged by Mr. Bodmer—“customer installations” and “customer information”—in accordance with USOA accounts and instructions.

**Q. Does Mr. Bodmer raise any other complaints with respect to the accounts at issue in ComEd’s analysis regarding usage contribution to costs?**

A. Yes. Mr. Bodmer claims that he attended a discovery meeting with ComEd in March 2009 at which he was “prepared to walk through each account and ask what were the actual functions performed by employees for each activity description.” (City Ex. 1.0, 87:1863-68). He further complains that ComEd “did not bring staff prepared to answer any questions regarding the categories of cost ComEd labels as ‘customer service costs.’” (*Id.*, 87:1870-71).

**Q. Were you aware of a discovery conference with Staff and Intervenors taking place in this docket?**

A. Yes, I was aware that the conference was taking place prior to its scheduled date.

**Q. Did you attend the discovery conference?**

A. No. Prior to the conference, I understand that ComEd sought input from Staff and Intervenors regarding the topics they wished to discuss at the conference and no party expressed interest in discussing the subject matter of my direct testimony, *i.e.*, ComEd’s

analyses of its customer services costs. Accordingly, there was no need for me to attend the discovery conference.

**Q. Should the Commission adopt Mr. Bodmer’s position that ComEd’s allocation of costs based on the number of customers instead of usage should be rejected?**

A. No. Despite Mr. Bodmer’s repeated claim that ComEd’s analysis is “regressive” in allocating costs based on the number of customers (*see, e.g.*, City Ex. 1.0, 59:1290-92, 64:1389-91), Mr. Bodmer fails to demonstrate how ComEd’s analysis is flawed in such a way that the Commission cannot rely upon it. In fact, Mr. Bodmer’s rhetoric flies in the face of Mr. Lazare’s testimony that ComEd’s analysis is reasonable, and that the Commission should reach the same conclusion as it has done on numerous occasions in past rate cases. (Staff Ex. 1.0, 32:745-53).

Moreover, it appears that since Mr. Bodmer does not like the result of ComEd’s analysis—as, among other things, it results in the multi-family classes paying higher rates relative to other customer classes (*see* City Ex. 1.0, 64:1399-1400)—he attacks the analysis itself. As I described earlier in this rebuttal testimony, contrary to Mr. Bodmer’s claims, ComEd correctly allocates the billing and data management costs, customer installations costs, service costs, and customer information costs based on the number of customers because ComEd’s experience has been that the number of customers determines the level of these costs, not the amount of electricity used by ComEd’s customers. In other words, additional or diminished usage by its customers will not cause ComEd’s billing and data management costs, customer installations costs, service costs, and customer information costs to increase or decrease.



487    **IV.    CONCLUSION**

488    **Q.    Does this conclude your rebuttal testimony?**

489    **A.    Yes.**